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**ANNUAL FINANCIAL REPORT OF THE GOVERNMENT OF CANADA
RELEASED - 1994-95 DEFICIT BELOW FORECAST AT \$37.5 BILLION**

Finance Minister Paul Martin today released the government's second Annual Financial Report, which provides a review of federal revenues and expenditures for the 1994-95 fiscal year.

The 1994-95 deficit was \$37.5 billion. This was:

- \$4.5 billion lower than the 1993-94 deficit of \$42.0 billion;
- \$2.2 billion lower than the February 1994 budget deficit target of \$39.7 billion;
- \$0.4 billion lower than the revised deficit estimate for 1994-95 in last February's budget.

The deficit to GDP ratio dropped sharply from 5.9 per cent in 1993-94 to 5.0 per cent in 1994-95.

"This is a marked improvement in the fiscal situation, and one which illustrates that making forecasts based on prudent assumptions will pay off," the Minister said. "This is another good news report card."

"This performance underlines the importance of setting credible, two-year rolling deficit targets and adhering to those targets. This builds the necessary credibility to strengthen confidence in our commitment to reduce the deficit to 3 per cent of GDP by 1996-97. We will meet that commitment," Mr. Martin added.

"It is encouraging to see that most key sectors contributed to the better-than-forecast performance of the economy in 1994, for the second consecutive year."

The economy broadened in 1994, with a pick up in growth in consumer spending and residential and non residential construction investment. Exports also grew to record levels in both volume (up 14.7% to \$202 billion) and value (up 20.2% to \$218 billion).



Inflation performance was also excellent, despite the depreciation of the Canadian dollar and upward pressure on import prices.

The Annual Financial Report of the Government of Canada responds to recommendations of the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts to present timely and understandable information about the government's financial situation.

Mr. Martin noted that the Auditor General has expressed his unqualified approval of the fiscal results for 1994-95 and has indicated that the report accurately summarizes the detailed Public Accounts of Canada which will be tabled in Parliament later this year.

The deficit of \$37.5 billion results from a shortfall between budgetary spending of \$160.8 billion and budgetary revenues of \$123.3 billion.

The \$4.5 billion improvement in the federal deficit between 1993-94 and 1994-95 resulted from a number of factors, including:

- revenues increased \$7.3 billion or 6.3 per cent;
- program spending, was down \$1.3 billion, or 1.1 per cent.

At the same time, public debt charges rose \$4.1 billion or 10.7 per cent, offsetting about half of the improvement in revenues and program spending. However, only \$200 million of the \$2.4 billion contingency reserve was used to cover the impact of changes in the economic environment on the deficit.

For further information:

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